LO.a: Demonstrate the application of the Code of Ethics and Standards of Professional Conduct to situations involving issues of professional integrity.

1. Cory Griffin, a Level II candidate, works as an investment advisor for Trust Mutual Fund. He specializes in commodities and informs his clients that the energy prices are going to rise due to political turmoil in the Middle East. He informs his broker at Xylan Mercantile to invest long in oil futures for him. Griffin should:
   A. disclose his personal transaction.
   B. manage his personal account separately.
   C. refrain from any personal transaction as long as he is employed by Trust.

2. Klaus Matthias, CFA, works at Meinhard Capital, an investment and brokerage firm where he supervises a team that develops and markets fixed income funds to cater to different high net worth clients internationally. Recently, due to the popularity of Islamic products he has asked his team to develop an Islamic Fund to market to his clients in the Middle East. The team includes three individuals who are all candidates in the CFA Program. After some research, they come up with a product that seems marketable to this specific niche. Before distribution of the fund, Matthias is worried whether the Fund is suitable for all Islamic investors. Matthias should:
   A. not launch the fund because it is not suitable for all Islamic investors.
   B. launch the fund but clearly acknowledge areas where the fund may not be suitable for certain clients.
   C. launch the fund because there will always be differences in cultural and religious laws around the world.

3. Nargis Dilawez, CFA, works as an independent research analyst and also uses various online social media sites to make announcements, recommendations and analysis of various securities. She is a resident of Country S where there is no law against posting of comments and opinions, but since her views are read globally she is worried about regulators in certain countries who impose restrictions and requirements on online communications. According to the Standards, Dilawez should:
   A. continue to post her comments since her resident country does not impose any regulatory restrictions.
   B. discontinue immediately and wait for the restrictions to ease in the nonresident countries.
   C. seek guidance from appropriate, knowledgeable, and reliable sources to diligently follow legal and regulatory trends affecting her professional responsibilities.

4. Wynona Fritz works for Brady Brokerage as a fixed income analyst. She is also registered to take the Level III examination. After analyzing both the qualitative and quantitative aspects of Saber Inc., Fritz concludes that the company is not correctly rated by the credit rating agency and should be downgraded due to the leverage in its capital structure. A senior manager from the investment banking department informs her that Saber Inc. has chosen Brady Brokerage as one of the firms to underwrite and market their new bond issue. Fritz is

concerned that her report will cause the company to terminate their relationship with Brady and affect her employment. According to the Standards, Fritz should:

A. dissociate from the report, the underwriting, and the client.
B. be independent and objective in her analysis based solely on the company's fundamentals.
C. change her recommendation about the credit rating to remove the conflict.

5. Jessica Morales works as an investment adviser for Chris Crosby, a middle-aged, risk averse investor. As per the investment policy statement, Morales invests in low-risk, high-income equities for Crosby keeping in mind his current needs and objectives. Recently Crosby's mother passed away leaving him with a significant inheritance. Morales continues to invest as before without any change in the investment strategy. According to the CFA Institute Standards of Professional Conduct, Morales should:
   A. stay abreast of changes in the client's net worth and accordingly update the investment policy to reflect changes in investment objectives.
   B. consider the long term aspect of Morales' investments and continue with the current strategy.
   C. keep changing the asset allocations in line with market changes.

6. Christie Tania, CFA, works as a fixed income manager for Mastermind Invest Capital. She finds an error in the performance results of one of her accounts as the report is about to be released to the client. The correction of the error will show an underperformance of the account compared to the selected benchmark. The client is not satisfied with Mastermind and had previously indicated that the account will be terminated if it did not meet the requisite returns. According to the CFA Institute Standards, Tania should:
   A. not send the report and wait till account shows an improvement in results.
   B. inform the appropriate individuals that the report needs to be updated before releasing it to the client.
   C. not correct the error and send it.

7. Bernhard Investment and Brokerage Company, has recently changed its stock selection method based on fundamental analysis to technical analysis. After testing it in-house under various scenarios, the new method seems more appropriate to the investments done by Bernhard. Kurt Ludwig, CFA, a portfolio manager with Bernhard feels that his clients will not understand the change and decides not to inform them. The *most appropriate* action Ludwig should take to avoid a violation of the Code and Standards is:
   A. to communicate the change of method to his clients and prospective clients.
   B. to communicate to only those clients who have a previous knowledge of technical analysis.
   C. not to inform of the change because it might lead the clients to challenge the new method of stock selection.

8. Dave Daisuke, CFA, works in the corporate finance department of Advile Securities. He receives a non-cash compensation for every referral he makes to the brokerage department.

This arrangement is an accepted norm within the company but the clients are not informed because no cash is given out within the firm for interdepartmental referrals. According to the CFA Institute Standards, the *most appropriate* action to take for the firm to avoid a violation is to:

A. adjust the non-cash compensation in the salaries of the personnel including Daisuke who are referring clients to the brokerage department.
B. disclose to clients at the time of a referral, the referral arrangements within Advile's departments.
C. stop the referral policy to remove any conflicts of interest.

9. Lauren Crawley is enrolled to take the Level I exam. As he tries hard to remember a formula to complete a question, he notices that the person in front of him gets up to drink water and a piece of paper slips from his pocket and falls on Crawley's table. In order to avoid a violation of the CFA Institute Standards of Professional Conduct, the *least appropriate* action taken by Crawley is to:
   A. remove it without looking at it and call the proctor.
   B. immediately call the proctor to her table and have the paper removed.
   C. look at the paper and then remove it before anyone else notices it.

10. Anna Becker is employed by Jergen Investment Management Company (JIMC). Becker is a Level II candidate and is the only CFA candidate employed by JIMC. Becker is given supervisory responsibilities of the compliance department and asked to review the firm's compliance policies and procedures, which she finds inadequate. She voices her concerns during a meeting with the CEO, who tells her to submit her recommendations in a report but these will not be implemented since the firm is undergoing a change in structure and no compliance changes will be entertained till then. According to the Code and Standards, Becker should:
    A. decline to accept supervisory responsibilities.
    B. accept supervisory responsibilities and lay down the compliance policies and procedures for future.
    C. wait till a new structure is implemented and then review the entire firm.

LO.b: Distinguish between conduct that conforms to the Code and Standards and conduct that violates the Code and Standards.

11. Cory Crawford works as a fixed-income portfolio manager focusing on investment grade bonds at Doonesbury Capital. His clients are primarily risk-averse, retired pensioners. Crawford's firm has introduced a bonus system to reward those portfolio managers who achieve a return higher than their respective benchmarks. Crawford, who is also a Level I candidate, purchases certain high-yield bonds in order to increase the return of his portfolio. No change in the objective or strategy has been suggested by Crawford. Crawford has *least likely* violated the Standard related to:
    A. Suitability.
    B. Disclosure of Conflict.

C. Priority of Transactions.

12. Rhonda Gates, CFA, works as a senior analyst covering basic materials and mining industry at Marcel Investments. After a thorough and independent research, Gates concludes that the stock of Riley Mining is overpriced and recommends selling it to take profits. She informs all the department heads of Marcel of her findings. Thomas Toffler, head of trading, after being informed about Riley's stock immediately places a sell order on behalf of the firm and is able to trade aggressively. The next day Gates' report is sent to all clients and the sales force. Toffler *least likely* violated which of the following Standards?
    A. Loyalty, Prudence and Care.
    B. Priority of Transactions.
    C. Fair Dealing.

13. Ratti Sonali, a Level III candidate, works as a trader at Rupali Investments. While working on trades for high net-worth clients, she notices a decline in the portfolio value due to certain investments made by the portfolio manager. She informs her supervisor Ashok Rajan who tells her not to concern herself with the portfolio manager's performance. Sonali then speaks to the compliance officer who tells her that the high net worth client portfolio is successful and the portfolio manager is very competent. The Standard *least likely* violated is:
    A. Loyalty.
    B. Misrepresentation.
    C. Responsibilities of Supervisors.

14. Shehroze Parvan, CFA, manages a balanced fund at McCoy Securities. He recently joined the company after working for ten years at Russell Securities. McCoy hired Parvan because of his proven track record at Russell. The new advertising material that Parvan develops for the clients of McCoy carries his past performance which he achieved at Russell as an endorsement of his knowledge and skills in investing. However, the performance results at the end include a qualifier stating, "These results were achieved by Parvan at Russell Securities." Has Parvan violated any Standard?
    A. Yes, relating to Misconduct.
    B. Yes, relating to Performance Presentation.
    C. No.

15. Ankit Aacharya, CFA, while making the marketing material for his firm Aakash Capital writes in the brochure, "Aakash Capital is committed to achieving excellent performance for its clients. It hires the most eligible personnel in the field of investment management. Most of the employees have either completed the CFA Program or are enrolled as candidates in the CFA Program. As a CFA charterholder, I am the most qualified to manage client investments." Aacharya *most likely* violated the Standard with improper references to the:
    A. CFA Designation.
    B. CFA Program.
    C. CFA Institute.

16. Rasmussen Hadley, CFA, writes in an independent blog about the findings of his research on various companies. He also works as an analyst with Brooklyn Brokers. He has written permission from his employer and appropriate regulator to give his opinion about various securities in his blog. Hadley, however uses the pseudonym Sam Smith, CFA, to hide his identity on the internet. Does Hadley violate the Standards?
    A. No.
    B. Yes, related to reference to CFA Designation.
    C. Yes, related to loyalty.

17. Sylvia Lancaster, a CFA candidate, is hired by Trevor Securities as a junior analyst. James Brokovich is the director of research at Trevor and feels that Lancaster should cover equities in emerging markets because of their rapid growth. Lancaster reads various brokerage reports on the subject and talks to other analysts of the company. Brokovich also arranges for her to meet with an old friend, Bryan Lee, who is on the board of various East Asian companies. Lancaster is then asked to submit a report on the companies in the consumer durables industry of East Asia. Due to shortage of time, Lancaster finalizes her report based on her conversation with Lee and the brokerage reports, and gives her "buy" recommendations on Malaysian stocks from the consumer durables industry. Lancaster does not give reference of the brokerage reports as sources in her report. The Standard *least likely* violated by Lancaster is:
    A. Diligence and Reasonable Basis.
    B. Misrepresentation.
    C. Conflicts of Interest.

18. Greg Vladislav, CFA, works for Anatoli Securities as a portfolio manager. One of his clients Boris Vladmir has left the firm. Vladislav receives a request from a college friend who has recently started his money management firm to share information and records of clients who have left Anatoli recently. Vladislav feels that it will not be inappropriate to send him Vladmir's records. Vladislav has *most likely* violated the Standard of:
    A. Misconduct.
    B. Loyalty.
    C. Preservation of Confidentiality.

19. Lara Whitman, CFA, worked for Rapid Results Brokerage Company (RRBC) as a trader. She recently resigned her position as a trader to join another competing investment and brokerage firm. Whitman did not sign any non-compete agreement while at RRBC that would have prevented her from soliciting former clients. Whitman, however, had saved her client list and records while working at RRBC, in her personal computer at home as a second copy. She accesses this file to contact her former clients in her new job. The Standard *most likely* violated is:
    A. Loyalty.
    B. Duties to Clients.
    C. Communications with Clients and Prospective Clients.

20. Julie Grosky, CFA, works for Harvest Mutual Fund where she manages a fixed income fund. In a hastily compiled performance review, Grosky reports to her clients that her fund has exceeded the benchmark by 0.20%. Stuart Brennan is a client of Harvest, who writes back to inform Grosky that the fund actually underperformed the benchmark. Grosky incorrectly blames the error on a computer program newly implemented at Harvest. Grosky *least likely* violated the Standard relating to:
    A. Misrepresentation.
    B. Misconduct.
    C. Independence and Objectivity.

21. Bryan Lee, CFA, works as a fund manager for Westlink Securities which historically has focused on US equities. Due to his past experience, Lee is also knowledgeable about emerging markets. After discussing the matter with the Chief Investment Officer (CIO) of Westlink, he decides to extend his fund's investment universe to include equities from emerging markets. The firm's marketing and promotional literature is updated to reflect the change in investment strategy. Has Lee violated any Standard?
    A. No.
    B. Yes relating to Communications with Clients and Prospective Clients.
    C. Yes, relating to Professionalism.

22. Siri Shekar, CFA, manages a balanced fund at Starlight Investments. She realizes that the fund's holdings in the stock of GYI Company are excessive, and selling the stock will not be easy since it is thinly traded. Shekar is also a regular participant in various social media sites as well as internet chat rooms where she mentions that the company is going into expansion. The company has not yet announced any expansion plans. Shekar believes that this will build interest in the stock and she will be able to get rid of some of her stock's overweight position. Shekar *least likely* violated the CFA Institute Standards of Professional Conduct related to:
    A. Market Manipulation.
    B. Material Nonpublic Information.
    C. Diligence and Reasonable Basis.

23. Nick Nader, CFA, works as a trader for Trust Investment Bank. During lunch he receives a phone call from a longtime friend Chris Sandler, who is a trader at SYI Securities. Sandler talks about various market rumors and tells Nader about a software company which is going through merger talks with another company in the same industry. Nader has a large purchase order from his portfolio manager for this stock. He searches various internet reports and the software company's website but finds no such news of the merger. Upon returning to his desk he places the order aggressively and completes it by the next day before the company releases any information. Has Nader violated any Standard?
    A. No.
    B. Yes, related to Material Nonpublic Information.
    C. Yes, Independence and Objectivity.

24. Shazi Agnimukha, a CFA candidate, writes in her blog after taking the Level II exam of the CFA program. She posts that the derivatives part of the exam was very easy while the ethics questions were difficult and time consuming. She further writes that a question from ethics was not properly structured and she was confused by the language. Agnimukha further describes a question in the Fixed Income portion in detail and asks if anyone can explain it to her. Agnimukha has *most likely* violated the Standard related to:
    A. Conduct as Participants in the CFA Program.
    B. Conflicts of Interest.
    C. Professionalism.

25. Raul Devgan, CFA, is a portfolio manager for Khadri Investments. He manages a high growth equity fund known as SmartMoney. Devgan reports the performance of SmartMoney in its quarterly newsletter and states, "SmartMoney was able to surpass its benchmark, S&P BSE by 0.20%. However, this type of performance should not be expected from the fund always." Adrik Vanyusha is a client of Devgan and follows the performance of SmartMoney closely. Upon receiving the newsletter, he immediately contacts Devgan and informs him that the fund never exceeded its benchmark but in reality had underperformed. Devgan recalculates the results after the complaint, which confirm Vanyusha's claim. He sends Vanyusha the correct results and blames the discrepancy on typographical error. Devgan *least likely* violates the Standard relating to:
    A. Misconduct.
    B. Misrepresentation.
    C. Independence and Objectivity.

26. Vladmir Seriozha, CFA, is fixed-income analyst at Rasputin Securities and describes the investment strategy of securities in a report to the firm's clients which is based on scenarios of certain declines in interest rates. The report explains the interest rate model which shows the increase in securities' valuations as rates decline. The model does not capture the risks of investment if the rates rise. Seriozha informs all the existing clients about the model in capturing the risks related to investments in case of an increase in interest rates, but all the promotional material for new clients does not carry this disclosure. Seriozha has *most likely* violated the Standard related to:
    A. Communications with Clients and Prospective Clients.
    B. Diligence and Reasonable Basis.
    C. Duties to Clients.

27. Preet Khadri, CFA, works for Eminent Capital as an investment advisor. She meets with a college classmate at a dinner who offers to pay Khadri a compensation for selling the stock of her company Zoratri Inc., to her clients. Khadri does not mention this arrangement to her clients or employer, and sells the shares of Zoratri to her clients where appropriate. Khadri has *least likely* violated the Standard related to:
    A. Suitability.
    B. Conflicts of Interest.
    C. Additional Compensation Arrangement.

28. TriStar Money Management wants to invest in emerging market on behalf of its high-net-worth clients and hires Brent Emory, an independent consultant to solicit proposals from various advisers. Emory after considerable due diligence provides a list of managers based on their successful performance in the emerging market, but promotes Asian Tigers as the most competent. TriStar selects Asian Tigers as the new manager from Emory's list and further reviews the selected new manager to ensure that Asian Tigers is the appropriate investment manager for its clients. During the review, TriStar discovers that Emory was being paid by Asian Tigers to promote their services. Even though Emory was being paid by both parties, TriStar's investigation proves that the recommendation was objective and appropriate. Emory has *least likely* violated the Standard related to:
    A. Referral Fees.
    B. Priority of Transactions.
    C. Additional Compensation Arrangements.

29. Ankit Tivari, CFA, is an investment adviser who works for Best Securities. He has two clients: Raveena Ahisma, a 55 year-old widow with two college going children, and Agneya Adya, a 35-year old, single male working as a journalist for a local newspaper. Both her clients are employed and earn a substantial salary. Adya is very aggressive with his investments and wants to invest in high risk securities for a higher return, whereas Ahisma wants to invest in low risk, large cap securities to achieve a constant income for her children's education. Tivari recommends investing a quarter of their portfolios in derivatives that have a potential to earn high returns despite their volatility. Did Tivari violate any Standard while choosing investments for his clients?
    A. Yes, for both his clients.
    B. Yes, only in Ahisma's case.
    C. Yes, only in Adya's case.

30. Catherine Czcibor, CFA, works as a portfolio manager for a local investment counseling firm. She is also a member of her son's school committee to help raise funding for a program for gifted children in music. Czcibor discusses an arrangement with her supervisor in which she will donate a certain percentage of her fees from clients referred to her by the school staff and parents. She gets a written approval from her firm. The school's board also approves Czcibor's plan and agrees to announce it in their upcoming parent teacher meeting along with sending a newsletter to all the parents and staff. When Czcibor starts getting the school referrals, she clearly discusses the referral arrangement with her new clients and the distribution of her donation to the school. Has Czcibor violated any CFA Institute Standards of Professional Conduct?
    A. Yes, related to conflicts of interest.
    B. Yes, related to additional compensation arrangements.
    C. No.

31. Isaac Dobrogost, a candidate in the CFA Program, works as an investment advisor for Zenith Mutual Fund. He is invited by one of his clients, Sahara Inc. (SI), a manufacturing company,

to meet with the finance director along with a few large stakeholders of SI. In the meeting Dobrogost finds out that the company is going through a lean period and will announce a decrease in earnings in their next quarter financial results. Can Dobrogost use this information to change the rating of the company from "buy" to "sell"?

A. No.
B. Yes, because this information is given directly by the company.
C. Yes because it has been disseminated to the other stakeholders as well.

32. Izzy Zubeika, CFA, works for Topworth Mutual Fund and is a portfolio manager for an aggressive growth equity fund. She is planning to sell a large portion of her investment to meet the medical costs of her ailing husband. Zubeika wants to sell her stake in Royal Beverages, but her firm has recently upgraded the stock from "hold" to "buy". Nevertheless after receiving approval from her employer she informs her broker to conduct the trade. Has Zubeika violated any CFA Institute Standards of Professional Conduct?

    A. Yes related to Market Manipulation.
    B. Yes, related to Priority of Transactions.
    C. No.

33. Su Ming Li, CFA, works as a portfolio manager for Peoples Investment Bank. She is asked to analyze certain East Asian equities by her firm, for the purpose of purchasing them. Li talks to Peter Wang, a friend and one of the owners of Dragon Brokerage and Investment Company. He informs her that the East Asian equities are doing very well due to a boom in their respective economies. After thoroughly investigating these equities, she purchases them for her accounts wherever they are suitable. Soon after she gets a call from Dragon to join the firm as a managing partner. Li accepts the offer and resigns from her current job. The week before joining Dragon, she purchases 1500 shares of East Asian equities for her personal account. Once Li begins working at Dragon, she purchases a large block of shares of East Asian equities and allocates them to accounts. Does Li's purchase of shares for her personal account violate the CFA Institute Standard of Professional Conduct?

    A. No, she bought the shares before beginning work at Dragon.
    B. Yes, relating to Suitability.
    C. Yes, relating to Priority of Transaction.

34. Kaori Kazuya and Albert Farnsworth are both candidates in the CFA Program. Kazuya is registered for the Level II exam and Farnsworth has passed the Level III exam of the CFA program. Farnsworth is awaiting his CFA charter. Kazuya works for Metro Investments and her business cards reads, "Kaori Kazuya, CFA Level II candidate" whereas Farnsworth works as an analyst at Sarosky Wealth Management and does not put any CFA designation on his business cards. But at the end of his reports, he does give a reference that, "Albert Farnsworth has passed all three levels of the CFA Program and will be eligible for the CFA charter upon completion of the required work experience." Who *most likely* violated the Standards?

    A. Both.
    B. Kazuya has violated the Standards, but not Farnsworth.

C. only Farnsworth violated the Standards.

35. Kayla Donovan, CFA, works as a portfolio manager for MacBrady Securities & Co. Some of her wealthy and large clients hold long positions on Swift Delivery, which is a courier service. After analyzing her own company's research reports and information available on various internet sites about Swift, as well as Swift's company website she concludes that the stock is expected to rise sharply on the back of strong quarter-end earnings about to be released in an earnings report in a few days. She informs all MacBrady's clients since some of them will be at a distinct advantage once the quarter-end earnings are reported. Donovan also runs a popular blog as an independent analyst for which she has approval from her employer, where she mentions her predictions about various stocks including observations about Swift's stock. She discloses to her clients about her blog which they regularly visit. Has Donovan violated any CFA Institute Standards of Professional Conduct?
    A. Yes, relating to Market Manipulation.
    B. Yes, relating to Priority of Transactions.
    C. No.

36. Roza Hernandez is a trust officer for Rize Trust Co. Hernandez uses Ricardo Drez, a broker, for trust account brokerage transactions. He gives Hernandez a lower price for her personal purchases than Hernandez's trust accounts. Hernandez is *most likely* violating the Standard related to:
    A. Duty of loyalty to clients.
    B. Fair dealing.
    C. Suitability.

37. Robert Blake is on the board of directors of Rice Industries and receives free tickets at the end of each quarter for his entire family to travel to any city of their choice in Europe for his services to the board. Blake does not disclose this information to his employer since it is not a monetary compensation. Has Blake violated any CFA Institute Standards of Professional Conduct?
    A. No.
    B. Yes, he has to inform his employer of the benefit he receives.
    C. Yes, because he has bought stock of Rice for some of his clients where appropriate.

38. A group of CFA charterholders under the name Research CFA, present online research on several popular stocks. Barry Marlow, a candidate in the CFA program, is an analyst at Drew Hedge Fund. He is under pressure by his firm executives to present his research report and recommendations on certain stocks. Marlow reads the research report by Research CFA and uses material in his report discussed in the online research. The *least likely* violation under the CFA Institute Standards of Professional Conduct is:
    A. Reference to CFA Institute, CFA Designation, and the CFA Program.
    B. Diligence and Reasonable Basis.
    C. Disclosure of Conflicts.

39. Sara Petrowski, a CFA candidate, works as an analyst at Topline Brokers. She reads in the Financial Times a study on the financial markets issued by Ace Research. She uses material from the study in her research report and gives recommendations to her clients. Petrowski does not cite the newspaper as a source since it is merely a conduit of the original information. Has Petrowski violated the CFA Institute Standards of Professional Conduct?
    A. Yes, she has misrepresented the information.
    B. No, the newspaper is not the original source.
    C. Yes, duty to her clients.

40. Janis David is the head of the research department at BAW, Inc. a brokerage firm. She has decided to change her recommendation of the Cooper & Ginto Mines from sell to buy. She informs the other executives of the firm orally before a report is prepared and sent to all customers. David's actions are in line with the firm policy. Roger Little, one of the junior analysts at BAW immediately buys Cooper & Ginto stock for himself and some of his clients for whom it is appropriate. David has *most likely* violated the CFA Institute Standards of Professional Conduct related to:
    A. Responsibilities of Supervisors.
    B. Additional Compensation Arrangements.
    C. Loyalty.

41. Syed Ali works for an investment bank and is involved in the underwriting of Apex Inc. The chief accountant of Apex informs Ali that the information in the financial statements filed with the regulator by Ali overstate sales and understate expenses. Ali seeks the advice of the legal counsel of the firm who states that it will be difficult for the regulator to prove that Ali was involved in any wrongdoing. Ali has *least likely* violated the CFA Institute Standards of Professional Conduct related to:
    A. Misrepresentation.
    B. Misconduct.
    C. Fair Dealing.

42. Hari Ram and his few colleagues are planning to leave Greysons Inc., a local investment bank, to form their private consultancy. Ram has found out that one of his clients has undertaken a request for proposal to hire a new investment adviser. The RFP has been sent to Greysons and all of its competitors but its submission period will end before Ram's and his colleagues' resignations become effective. Nevertheless, Ram and the departing colleagues decide to respond to the client's request. They have *most likely* violated the CFA Institute Standards of Professional Conduct relating to:
    A. Loyalty.
    B. Conflict of Interest.
    C. Duties to Clients.

43. Richard Swanson is an analyst covering the oil industry in Azwitz Securities. He, along with other analysts, has just visited Prell Refineries, an exploration and production company, and concluded based on his own assessment and calculation of the drilling on site, that the

company has abundant oil reserves. This view is not shared by the other analysts who visited the site. Swanson writes in his research report that Prell is in fact sitting on vast oil reserves and makes a buy recommendation. Has Swanson violated any of the CFA Institute Standards of Professional Conduct?

A. No.
B. Yes, Communication with Client and Prospective Clients.
C. Yes, Diligence and Reasonable Basis.

44. Romana Zahoor works for a local brokerage firm and is a CFA candidate. She plans to issue a buy recommendation for the stock of Basics. Before issuing the recommendation, she buys the stock for herself through her sister's account. Zahoor *most likely* violates the Standard of:
    A. Priority of Transactions.
    B. Fair Dealing.
    C. Suitability.

45. Eileen Connors is a chief trader for Ascot Investments, a money management firm. She has been told recently by her most lucrative client Shelby Company that if the performance of its accounts did not improve they will be forced to change their money managers. Connors has purchased certain securities a few days back, whose price has gone up significantly. She has failed to allocate these trades due to her busy schedule. After the threat from Shelby, she decides to allocate the profitable trades to Shelby's account, while spreading the losing trades to other Ascot's accounts. Has Connors violated any Standard?
    A. Yes, related to Fair Dealing.
    B. No.
    C. Yes, related to Diligence and Reasonable Basis.

46. Penelope Cox is employed by Jameason Investment, and provides investment advice to the trustees of SYU University in order to recommend investments that would generate capital appreciation in endowment funds. Cox has been given internal reports by the trustees that highlight the expansion of the university. Cox is approached by Bradley Cooper, a local philanthropist who is considering a generous contribution to SYU and another university in the area, but he would like to see the expansion plans of SYU before making the donation. Cox knows that he does not want to speak to the trustees hence she gives a copy of the internal report to Cooper. Has Cox violated the Code and Standards?
    A. No.
    B. Yes, preservation of confidentiality.
    C. Yes, loyalty.

47. Carla Simone, a CFA candidate and a research analyst, follows firms in the beverage industry. She has been recommending the purchase of Citrus, because of its introduction of a popular new drink for athletes and exercise enthusiasts. Simone's husband has inherited from a relative, the stock of Citrus worth $3.5 million. Simone has been asked to write a follow up report on Citrus. She writes the report and gives a strong buy recommendation. The report

does not mention her husband's ownership of the stock. Has Simone violated the CFA Institute Standards?

A. No.
B. Yes, disclosure of conflicts.
C. Yes, independence and objectivity.

48. Babar Ahmed is a trader at Cooper & Baines, a local brokerage firm. He trades frequently in the stock of Zelle, despite the fact that Zelle is not on the recommended list of securities of Cooper. Ann Miller is the supervisor and compliance officer of Ahmad. Part of her compensation is based on the trading revenues of Cooper. She notices the large volume of trade of Zelle, but does not investigate it. Has Miller violated the CFA Institute Standards?
    A. Yes, conflict of interests.
    B. No.
    C. Yes, responsibilities of supervisors.

49. XYZ, an investment firm, manages pension plans of various large companies. XYZ mainly uses Greatson, Inc. for most of its trading activity. This is because the CEOs of the two companies are close friends. Greatson is more expensive than the other brokerage firms offering the same brokerage services. Its research and execution are average compared to the other brokerage firms. But Greatson absorbs XYZ's rent in exchange for the brokerage business given to it by XYZ. Has XYZ violated any CFA Institute Standards of Professional Conduct?
    A. Yes, relating to loyalty, prudence, and care.
    B. No.
    C. Yes, relating to misconduct.

50. Tracy Chapman works as a proctor for the administration of the CFA examination in her city. She reviews a copy of the Level III exam on the evening prior to the exam and discloses information to two candidates who use it to prepare for the exam. Chapman and the two candidates have *least likely* violated the CFA Institute Standards of Professional Conduct, related to:
    A. Conduct that compromises the integrity, validity or security of CFA Institute programs.
    B. Suitability.
    C. Attempt to circumvent security measures established by the CFA Institute.

51. Christina Lucci, a CFA candidate, who is a portfolio manager of a growth mutual fund, maintains an account in her sister's name at several brokerage firms with which her fund's clients also do business. Whenever an eagerly awaited equity IPO is announced, she instructs the brokers to buy it for her sister's account. Because such issues are scarce, her clients are unable to receive any new shares. Lucci *most likely* violates the CFA Institute Standards of Professional Conduct related to:
    A. Priority of Transactions.
    B. Disclosure of Conflicts.

C. Additional Compensation Arrangements.

52. Stefan Ericsson, a CFA candidate is an analyst working for publicly traded companies to electronically promote their stocks. He has also set up a website to market his research capabilities as an independent analyst. Ericsson posts a buy recommendation on his website for each company that he has a contractual relationship with and fails to disclose this in the research reports he issues or statements in the internet chat rooms. Ericsson *least likely* violated the CFA Institute Standards of Professional Conduct related to:
    A. Misrepresentation.
    B. Disclosure of Conflicts.
    C. Fair Dealing.

53. Brendon Frazer, a CFA candidate, is an analyst with ITI, an investment and brokerage company. ITI requires him to give a recommendation and research report every month on a different company. He is also enrolled in a university where he takes night classes to earn an MBA. Frazer has informed his employer of his enrollment in the university. Due to excessive workload he finds it difficult to complete his research report on a technology company as the deadline comes nearer. In order to save time he develops his report based on a few articles he read recently about the company and gives his 'buy' recommendation. Frazer gives the reference of the articles in his report. Is Frazer's report and recommendation in compliance with the CFA Institute Standards of Practice?
    A. No.
    B. Yes, because he gives reference of the articles.
    C. Yes, because the technology company is suitable for some clients of ITI.

54. Nancy Keene recently left Kay Investments to join another competing firm. She left her former employer after 10 years without any non-compete agreement, and did not solicit any of her clients during the transition period. After joining the new firm, she wants to contact her former clients because she developed close ties with them after earning strong returns for their portfolios. Keene knows that many will follow her to the new employer. Is Keene in violation of CFA Institute Standards of Professional Conduct?
    A. Yes, because she cannot contact her former clients.
    B. No, because she does not use any material from her former employer.
    C. Yes, because of loyalty to her former employer.

55. Phillip Cochran, a CFA charterholder, is a portfolio analyst with Frazier Trust, and manages the portfolio of Dennis Quad. Although Cochran receives a salary from his employer, Quad tells him that "any year my portfolio exceeds a rate of return of 16% before tax; you can fly to Paris at my expense and use my apartment for a week". Cochran fails to inform his employer of the arrangement and his vacation in Paris the following year. Cochran *most likely* violated the CFA Institute Standards of Professional Conduct related to:
    A. Additional Compensation Arrangement.
    B. Suitability.
    C. Independence and Objectivity.

56. Selma Hyek, a senior executive of Avery Capital, issues a performance report for the accounts that showed capital appreciation for the years 1990 to 2006. Avery Capital claims compliance with GIPS standards. Returns are not calculated in accordance with the GIPS standards, because the composites are not asset weighted. Hyek *most likely* violates the CFA Institute Standards of Professional Conduct relating to:
    A. Performance Presentation.
    B. Integrity of Capital Markets.
    C. Record Retention.

57. Steve Tylor, a CFA candidate and a technology analyst with Rock Brokers, is invited by SuperTech to participate in a technology conference at SuperTech's expense. SuperTech has also invited a few other analysts from different companies to the same conference. It arranges and pays for Tylor's airfare and accommodation for two nights. The trip is strictly for business purposes and Tylor is not offered any lavish hospitality by SuperTech. Tylor informs his employer of the arrangement and is given permission to attend the conference. By accepting this invitation, has Tylor violated the CFA Institute Standards of Professional Conduct?
    A. No.
    B. Yes, because it creates a conflict of interest.
    C. Yes, because it compromises Tylor's independence and objectivity.

58. Steve Miller is enrolled as a candidate in the CFA Program. He works as an assistant manager in Trust Investment Bank. He enjoys drinking liquor during his lunch break. Miller's colleagues have noticed that he is visibly intoxicated after the lunch break and is not in a position to make rational investment decisions. Miller *most likely* violates the Standard of:
    A. Misconduct.
    B. Knowledge of the Law.
    C. Disclosure of Conflicts.

59. Franz Beckenbaur, CFA, is a trader for Lee Inc., an investment and brokerage firm. He receives compensation for referrals from the firm's portfolio and financial planning division. He usually refers clients from his previous employer and does not have a non-compete arrangement with them. Beckenbaur uses his own personal material to contact them and informs them duly of the referral arrangement. Has Beckenbaur violated any Standard?
    A. No, because he discloses to his former clients the referral arrangement.
    B. Yes, because he has a duty of loyalty to his clients.
    C. Yes, because of a breach of loyalty to his former employer

60. Penelope Gonzales is employed as a part-time analyst with Cooper Associates, an institutional asset manager. She is paid a flat fee to complete a study of the technology industry within a certain time span. She is also given unlimited access to Cooper's files and data. Gonzales can use the office facilities of Cooper during normal working hours. Towards

the conclusion of her report, she is offered a job at Noblex, which is an IT firm. Gonzales submits a copy of her report along with recommendations to her new employer. Has Gonzales violated any Standard?

A. No.
B. Yes, loyalty.
C. Yes, misrepresentation.

61. Leila Salman works for a firm that advertises its past performance in various periodicals. Salman discovers that some accounts have left the firm recently and the returns of these accounts are not included in the promotional material. The omission has led to inflated performance returns. Salman is asked to use the same material while soliciting clients. By doing so, Salman will *least likely* be violating the CFA Institute Standard of:

A. Knowledge of the Law.
B. Misrepresentation.
C. Performance Presentation.

62. Janice McDowell, CFA, is the chief investment officer of Zenith Investment Bank and wants to improve the diversification of one of its balanced funds in order to improve its returns. The investment policy statement of the fund mentions low risk investments in large-cap equities, government bonds of AA ratings and corporate bonds of high investment grade ratings. However, a new IPO offering of a small pharmaceutical company but with high growth potential, promises high returns since the issue is being offered at a discount. He immediately allocates some portion of the issue to his fund, without exceeding the limit on the equity exposure of this fund. McDowell has *least likely* violated the CFA Institute Standards of Professional Conduct relating to:

A. Loyalty, prudence and care.
B. Suitability.
C. Fair dealing.

63. Alan Clay, candidate in the CFA Program, works for a large money manager. He recently applied for an analyst position at Rodham & Winston, an investment bank and was hired by them. Before leaving his current employer, he copies the firm's software that he developed, which he believes is his property. Clay feels that his software is one of a kind and will help him in his new job. Has Clay violated any Standard?

A. No, the software was developed exclusively by him.
B. Yes, with respect to loyalty.
C. Yes, because he failed to inform his new employer that the model was developed for his previous employer.

64. Avi Sharon is an analyst for Ariel Investment Management. He recommends the purchase of ABC company's stock after conducting due diligence on the company and has published a research report that is well accepted by the company's management. The business managers of ABC invite him for further discussions. They sponsor his air ticket and accommodations at an expensive hotel. Sharon, as per the policy of Ariel, discusses the travel and stay

arrangements with his employer and is given permission. He further meets with the CFO in a dinner arranged by ABC and gives full disclosure to his employer upon his return. According to the Standards of Practice Handbook, has Sharon violated any CFA Institute Standard?

A. Yes, with respect to Disclosure of Conflicts.
B. Yes, with respect to Additional Compensation Arrangements.
C. No.

65. Zion mutual fund advertises in its marketing brochures that all the fund managers at Zion are CFA charterholders, and hence achieve better performance results. Which CFA Institute Standard of Professional Conduct is *most likely* violated?

A. Reference to CFA Institute, CFA Designation, and the CFA Program.
B. Professional misconduct.
C. Misrepresentation.

66. Ann Haley posts on her Twitter account that her Level III of the CFA exam went very well. She further adds that although the exam was difficult and very tiring she still managed to do fairly well by effectively managing time. Has Haley violated any Standard?

A. No.
B. Yes, with respect to her conduct as participant in the CFA Program.
C. Yes, with respect to reference to the CFA Program.

67. Signa is a local wealth management firm that mostly employs either CFA charterholders or candidates in the CFA Program as its employees. Hence it uses the name Signa, Chartered Financial Analysts, Inc. as the firm’s name. Which Standard did Signa *most likely* violate?

A. Reference to the CFA Designation.
B. Misrepresentation.
C. Knowledge of the Law.

68. Shiraz Ahmed is a trader at an investment management firm. He is also involved in the buy-side trades of an aggressive equity fund managed by the firm. During a recent decline in the market many securities of the aggressive equity fund show a marked decline in value, but the performance of the fund does not show a change in return. Ahmed at once mentions it to his supervisor and the compliance officer, who tell him that the fund is doing well and he should concentrate on his job at the trading desk instead of asking irrelevant questions. The CFA Institute Standard that is *least likely* violated is:

A. Professional Misconduct.
B. Responsibilities of Supervisors.
C. Material Nonpublic Information.

69. Chang Li is head of sales at an investment bank. Li while reviewing the marketing material of the bank realizes that some of the information contained there-in is out of date. The marketing material is generated from the results provided by the bank’s mutual funds and Li has no control over it. He continues to provide the material to his sales team without updates. Did Li violate any Standard?

A. Yes, with respect to misrepresentation.
B. No, because he has no control over the marketing material.
C. Yes, with respect to disclosure of conflicts.

70. Greg Lou has been asked by his firm, Binkley Investment Management, to find an adviser for one of its funds which invests in derivatives and complex securities. Lou selects 12 firms based on their annual total return performance and finalizes on the adviser with the highest annual total return. Which CFA Institute Standards of Professional Conduct did Lou violate?
    A. Communications with Clients and Prospective Clients.
    B. Professional Misconduct.
    C. Diligence and Reasonable Basis.

71. Samina Haq a CFA candidate, works for Superior Trust Company. While reviewing the performance of one of the trust funds, she finds out that the trust fund has on an average performed at 5% for the last three years yet the brochure of her fund advertises an annual compound growth rate of 20%, which happened only in the past year. It also boasts of a consistent increment in the investment value above the entire market which also took place during last year. Haq's *highest* priority in avoiding a violation of the CFA Institute Standards of Professional Conduct is to:
    A. correct the performance calculation and length of time.
    B. continue with the advertisement since it did rise above the market.
    C. use the firm's average rate of return in her marketing material for all accounts.

72. Weinberg Inc., a global asset management company, has a large position in Wessner Pharma. The trading volume of this stock is low. In order to boost the liquidity of the stock, multiple trading desks at Weinburg start buying and selling Wessner shares from each other. The CFA Institute Standard *most likely* violated by Weinberg is:
    A. Market Manipulation.
    B. Misconduct.
    C. Acting on Non Public Information.

73. Norman Bates, CFA works as an analyst for Angle Investments. She has been asked to cover investments in the Asian markets for their high rate of return. The trip is sponsored by Sia, an investment and brokerage firm. Bates knows that Sia charges commission at a higher rate than the other brokerage facilities used by her firm. Nevertheless she convinces the trading desk at Angle to give more business to Sia so she can take the trip. Bates is *most likely* violating the CFA Institute Standard of Professional Conduct related to:
    A. Diligence and Reasonable Basis.
    B. Loyalty, Prudence, and Care.
    C. Additional Compensation Arrangements.

74. Mary Burnette supervises a team of research analysts at Brigham Money Managers. One of her team member Siri Desai, an auto analyst, follows various websites and blogs for research purposes on the auto industry. Desai while browsing through the internet comes across a

report by an independent research analyst on the hybrid car introduced by Koyota Motor Company. Based on that report she gives a recommendation of 'buy' in her research report without giving reference of her source. Burnette is under a deadline by her firm to compile the reports and to implement the recommendations. She does not review Desai's work and sets up a meeting with the portfolio managers to discuss the execution strategy based on the research reports submitted by her team. Burnette *least likely* violated the CFA Institute Standard of:

A. Responsibilities of Supervisors.
B. Diligence and Reasonable Basis.
C. Disclosure of Conflicts.

75. Raza Jaffery works as an independent analyst for the medical equipment industry. His reports are based on an analysis of customer interviews, manufacturers, on-site company visits, and secondary research from other analysts. Jaffery does not maintain any records or files for the information he collects but he mentions the source of his research in his reports. If the clients need information on the specific web sites, Jaffery always provides them with the relevant information. Jaffery *most likely* violated which of the following Standards?
    A. Record Retention.
    B. Diligence and Reasonable Basis.
    C. Misrepresentation.

76. Cora Bentley works for an investment counseling firm. She is approached by a new client Sue Grey for financial advice. Bentley very enthusiastically explains to her how she can increase her return by investing in a few small-cap stocks that are selling at a discount in the market. Has Bentley committed a violation of the CFA Institute Standards?
    A. No.
    B. Yes, Bentley should have explained her qualifications, her education, and experience and the meaning of her CFA Designation.
    C. Yes, Bentley should have determined Grey's needs, objectives, tolerance and risk before making any recommendations.

77. Robert Brown is an analyst at Lazarus Investment Bank, which is one of the underwriters of Coolidge Inc. Brown discovers that the company has not given accurate earnings figures. The actual figures are much lower than the numbers presented. The preliminary prospectus has been distributed. Brown talks to his supervisor, who casually dismisses the matter. Brown requests his manager to assign him to another project. His action most likely conforms to which Standard?
    A. Knowledge of the Law.
    B. Misrepresentation.
    C. Difference between fact and opinion.

78. An independent analyst recommends a stock based on a 5-minute pre-market talk show by a reputed analyst, on the TV that morning. The recommendation is *least likely* a violation of:
    A. Diligence and reasonable basis.

B. Suitability.
C. Fair dealing.

LO.c: Recommend practices and procedures designed to prevent violations of the Code of Ethics and Standards of Professional Conduct.

79. Martin Bart, CFA, is working as a portfolio manager at a large global investment manager. Most of her clients are residents of a conservative country called Inara, where the new government has introduced a new law barring equity holdings in tobacco companies. Bart's clients have significant exposure to tobacco companies through international funds in their portfolio because of the handsome returns they have earned in the past. Three months have passed, Bart is unaware of the change in law and takes no action. According to the Standards, his inaction is:
    A. is a violation of the Standards as members should stay informed of the changes in applicable laws.
    B. not a violation of the Standards since the exposure is through international funds and not domestic tobacco companies.
    C. not a violation since it is a recommended procedure and a member cannot be expected to keep track of the laws of all the countries his clients are from.

80. BU Airlines has taken INR 1.1 billion of debt and is unable to service it. The stock prices have been falling and some investors are accumulating the stock in the hope it will rise soon. Most investors are unaware of the health of the loss-making airline. The research team at Emitus Investment Management, covers the stock and wants to publish an adverse opinion on the stock. The firm's policy does not permit dissemination of a negative opinion about a client, as it was the underwriter when BU went public two years ago. The *best* course of action is:
    A. defy the firm's orders and issue an adverse opinion as loyalty to clients takes precedence.
    B. to put BU on a restricted list.
    C. issue a favorable report for now as the airline industry is volatile and the company may turn around.

81. Lunu Mbasa is an independent analyst who writes a popular financial blog on stock selection. He is hired by an investor relations firm to publish a research report on FKart, an online lifestyle firm, on his blog. Mbasa will be paid a fixed fee plus a monthly voucher that can be redeemed on the site if any investor buys the stock based on his report. There is no disclaimer about the arrangement in his blog post. This arrangement is *least likely* a violation of:
    A. Disclosure of conflicts.
    B. Independence and Objectivity.
    C. Suitability.

82. Pratik Mathew, a candidate registered for the Level II exam copies important concepts ad formulas from difficult topics such as Economics, Quantitative Methods and Derivatives daily from the CFA Institute curriculum and posts them on his Facebook page. He had paid for the online version of the curriculum. He does not attribute the source of his post. Mathew is *most likely* in violation of:
    A. Misrepresentation.
    B. Misconduct.
    C. Responsibilities as a CFA Institute Member or CFA Candidate.

83. Inventure Advisors hires ten research analysts at the entry level from a reputed management school. One of the recruits, Smith, has served a three-day jail term for drug abuse, while still in school, that was not disclosed at the time of recruitment. He has since reformed after being to a rehabilitation center. However, Smith had provided references, who would have acknowledged this incident if the firm had done the background check. Who is most likely in violation of Standard I(V) Misconduct?
    A. Smith, for not revealing the offence at the time of recruitment.
    B. The firm for not conducting the background check.
    C. Both Smith and the firm.

84. Sanjay Babu is a research analyst at Waterhouse Investment Management firm. He covers Sat Corp, a technology services firm. Babu, during a visit to the firm to interview the business heads about future growth prospects, overhears a conversation between the CFO and VP-HR in the adjoining room, that the market regulator of India is privately interrogating the CEO's involvement in an insider trading case of Sat Corp. What is the *best* course of action for Babu to take?
    A. Issue a sell recommendation as the stock will fall once the information is public.
    B. Encourage Sat Corp. to make the information public.
    C. Communicate the information to his research team members so that they do not make any investment recommendation on the firm.

85. The Food Safety and Standards Authority of India (FSSAI) was investigating the presence of dangerous substances in a popular baby cereal, manufactured by Selet Limited. Selet is a publicly listed company with operations around the world. The tests concluded the presence of harmful chemicals above permissible limits which may result in product recalls and a temporary ban on production. The results of the test have not made public yet. Tara, a lead scientist at one of Selet's labs, confides the results to Raul, a research analyst who covers Selet and manages Tara's portfolio. She asks him to sell her holdings in Selet. If Raul acts on Tara's information only for her portfolio, he would *most likely* violate which of the following Standards?
    A. Fair Dealing.
    B. Material Nonpublic Information.
    C. Market Manipulation.

86. Alex Karachanis, CFA, is an independent financial advisor with a roster of over 100 clients. Along with advisory services, he also facilitates in executing the trades for his clients and manages their portfolio. Adonia Papadakis signed up Alex in November 2013 to advise and manage her portfolio. After detailed discussions on Adonia's circumstances and return requirements, it was agreed that only large cap equity investments will be made. In mid-2013 Alex felt that large cap stocks were excessively overvalued and shifted 50% of the portfolio to small-cap stocks. Over the next six months, small-cap stocks significantly outperformed large cap stocks. It is now January 2014 and Adonia has just received her account statement for 2013. She is very happy with the performance of her portfolio. Which standard did Alex least likely violate?
    A. Performance presentation.
    B. Communication with clients and prospective clients.
    C. Loyalty, prudence and care.

87. Riya, CFA, a portfolio manager has two high net worth clients: Rita and Anita. The two clients are sisters and except a few asset classes, their portfolio holdings are the same. The sisters have received $200,000 each in inheritance. Both, Rita and Anita, have expressed interest in taking exposure to risky international equities, especially China. Anita also plans to buy a new house in the next 3-4 months and needs to make a down payment of $450,000. Riya is aware of Anita's plans and her need for liquidity if she has to make the down payment. Riya, in the meantime, after thorough research identifies a fund that has the potential to earn good returns in the next three years, and disseminates the recommendation to Rita for investing the surplus funds. Has Riya violated any Standard by discriminating against Anita and not recommending the fund?
    A. Yes, Standard III (B) Fair Dealing.
    B. No.
    C. Standard III (C) Suitability.

88. Roland Andrade manages a small-cap, growth fund called Equity Opportunity Series – Growth. He purchases stock of the country's largest dividend paying company because it has weathered recent volatility in the markets, and will bring stability to the fund. In terms of percentage of assets in the fund, the stock now has the highest holding in the fund. Which Standard did Andrade *most likely* violate?
    A. Suitability.
    B. Diligence and Reasonable Basis.
    C. Loyalty, Prudence, and Care.

89. Alba Parker, CFA, is working on a presentation to present to prospective clients. She showcases the return for the past seven years of a composite of the firm's discretionary accounts whose objective is to invest in European growth companies. Parker includes the returns of terminated accounts as the returns are impressive. She includes a note that the returns of terminated accounts have also been included. Is Parker in compliance with Standard III (D) Performance Presentation and GIPS Standards?
    A. No.

B. Yes, in compliance with Standard III (D) Performance Presentation, but not with GIPS.
C. Yes.

90. Ind Bank has recently started advisory services at its new branch in Nhasi. The affluent neighborhood houses many residential apartments of high net worth individuals. To promote its services, the bank conducts a marketing drive in each apartment complex and has signed up many clients in the last one month. Ent Nes, an advisor at the bank, is meeting with a new client at the latter's home. The client is inquisitive and wants to know if anyone from the community are Nes' clients and if they have made any private equity (PE) investments. Nes boasts of the business he has garnered in the past month and says a few people have recently made PE investments, but does not reveal the names. Has Nes violated any Standards?
    A. No.
    B. Loyalty.
    C. Preservation of Confidentiality.

91. Vishal Kachru, CFA, works as a research analyst with HDC Investments. He is passionate about teaching; on Saturdays, he gives lectures on leadership and brand building for three hours at a management school nearby. He is compensated well for this activity as an independent lecturer. Kachru ensures that he schedules this class only when he is not required at work. Did Kachru violate any Standard?
    A. Yes, Standard IV (A) Loyalty by not informing his employer of this engagement and compensation.
    B. No, because it does not affect the responsibilities to his employer.
    C. Yes, Standard VI (C) Disclosure of Conflicts.

92. Andrea Whistler, CFA is a research analyst at Awesome Investments. Among the list of stocks she covers is home e-tailer Fabnish, which was issued a buy recommendation recently. Whistler is also a passionate home décor blogger in her spare time. To promote their newly launched home décor section, Fabnish has approached Whistler to do an objective post on home improvement using the products on their site. She will be compensated through vouchers for this activity that can be redeemed on the site. Whistler does not inform her employer of this activity as it does not interfere with her work commitments. Did any violation take place?
    A. Yes, she should have informed her employer of the additional compensation.
    B. No, because there was no conflict of interest.
    C. No, because she was loyal to her employer.

93. Aidan Ackermann, CFA, is recently hired as a banking analyst at Becker Investments. One of the mandates given by his supervisor Abigail Wohlers, is to improve the online presence of Becker among social media platforms. Ackermann posts regularly on the company's Facebook page and Twitter on the various services offered by Becker as well as snippets of the companies on his research list. He shares his buy/sell/hold recommendation in a brief

manner on Twitter before the report is released to all clients. Did Wohlers violate any Standard?

A. Fair Dealing.
B. Responsibilities of Supervisors.
C. Preservation of Confidentiality.

94. Dan Belkin works for Benedict Advisors. The firm advises and manages the portfolio of clients with various mandates. To cater to the increasing number of requests for diversification by including international equities, Belkin has been assigned the task of selecting a sub-adviser who specializes in this area. The selection must be made within the next six weeks. Belkin shortlists ten names from a database of fund managers who focus on this region. He eliminates those with a high expense ratio and a high turnover rate, and narrows the list to five. Due to shortage of time, Belkin has a brief interaction with each of the five fund managers to understand how they calculate returns, and does not go into their stock selection or due diligence process. He chooses the one with highest total returns in the past two years. In seleting the manager with highest returns, Belkin is *most likely* in violation of:

A. Diligence and reasonable basis.
B. Independence and Objectivity.
C. Loyalty to employer.

95. Ashwin Kaushal, CFA develops a stock screener model using several parameters, while he is employed at Reliable Investments Inc. He documents the assumptions made regarding the model and the reasoning behind using parameters such as shareholding pattern, performance of the stock relative to index, and comparing it with peers. The success of the model lands him a job as the head of research at Trust Advisors. Kaushal takes all the documents related to the model developed by him. Did Kaushal violate any Standards?

A. Yes, Conflicts of Interest.
B. Yes, Record Retention.
C. No, there was no violation.

96. Eli Sorkin, is a research analyst covering the electronics industry. One of the companies he follows closely is Canc Inc. as they often come up with innovative products. When they release a wireless printer, he thinks it is a breakthrough and after thorough research, strongly recommends the stock. A fortnight after the report is released, Sorkin inherits $1million worth of Canc stock from a distant uncle. What is the *most* appropriate action for Sorkin to take?

A. Disclose the ownership to his employer.
B. Do nothing as the recommendation as sufficient time has passed since the report released.
C. Ask his employer to assign further coverage of the stock to another analyst.

Solutions

1. A is correct. According to Standard VI(A) Disclosure of Conflicts, Griffin should disclose this personal transaction.

2. B is correct. Refer to Standards I(A) Knowledge of the Law and III(C) Suitability. Members and candidates should understand that a single product cannot be suitable for all Islamic investors. The best way to deal with this situation is to clearly define which Islamic laws and regulations are being followed in the creation of the product and the types of investors for whom this fund will be suitable.

3. C is correct. According to Standard I(A) Knowledge of the Law Dilawez should adopt the stricter law.

4. B is correct. Fritz should be independent and objective in her report. Alternatively, Brady Brokerage could place Saber Inc. on a restricted list and issue only factual information.

5. A is correct. Refer to Standard III(C) Suitability.

6. B is correct. According to Standard III(A) Loyalty the client needs to be informed with the updated result of the underperformance of his account. Withholding information is not in the best interest of the client.

7. A is correct. Ludwig must disclose to his clients the change in the process of selection. Refer to Standard V(B) Communications with Clients and Prospective Clients.

8. B is correct. Disclosure to clients is important even if the referrals result in a noncash compensation. Refer to Standard VI(C) Referral Fees

9. C is correct. Refer to Standard VII(A) Conduct as Participants in CFA Institute Programs.

10. A is correct. According to Standard IV(C) Responsibilities of Supervisors, a member or candidate should decline in writing to accept supervisory responsibilities until reasonable compliance procedures are laid down by a firm for her to assume and exercise responsibility.

11. C is correct. Crawford doesn't own the same securities as his clients therefore he least likely violates Standard VI(B) Priority of Transactions. He violates Standard VI(A) Disclosure of Conflicts by failing to inform his clients of the change in his compensation arrangement with his employer which causes a conflict between his compensation and the clients' IPS. He violated III(C) Suitability because high-yield bonds are not suitable for his risk averse clients.

12. C is correct. Standard III(A) Loyalty, Prudence and Care has been violated because Toffler did not place his clients' interests before his employer's interests. Standard VI(B) Priority of Transactions has been violated. Toffler would have avoided the conflict by waiting until his

clients had the opportunity to receive and assimilate Gates' report. The report was sent out to all clients at the same time; hence Standard III(B) Fair Dealing is not violated.

13. B is correct. Standards IV(A) Loyalty and IV(C) Responsibility of Supervisors have been violated since both the supervisor and compliance officer did not investigate Sonali's concerns. There is no evidence of misrepresentation.

14. C is correct. No violation has occurred. It is acceptable to share past performance as long as a clear disclaimer is provided that this performance was achieved at another firm.

15. A is correct. CFA Institute and CFA Designation were improperly referenced. Refer to Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program.

16. B is correct. Hadley cannot use the CFA designation tagged to a pseudonym or online profile name used to hide his identity. He is free to use a pseudonym but without the CFA designation.

17. C is correct. Lancaster has violated Standard I(C) Misrepresentation by not citing the brokerage reports as sources and Standard V(A) Diligence and Reasonable Basis because of her lack of independent research in the preparation of her report.

18. C is correct. Vladislav has violated III(E) Preservation of Confidentiality because he has to maintain the confidentiality of client information even if the person or entity is no longer a client.

19. A is correct. Standard IV(A) Loyalty is most likely violated. A member cannot take records or work performed on behalf of the firm in paper copy or electronically without permission to another firm. In this case she cannot use the firm's records of clients without the firm's permission.

20. C is correct. Standard I(B) Independence and Objectivity involves members and candidates not accepting any gifts or benefits that could be expected to compromise their independence and objectivity. Since no benefits were received Grosky has least likely violated I(B). Grosky most likely violated the Standards I(C) Misrepresentation, and I(D) Misconduct because she knowingly misrepresents the cause of the error.

21. B is correct. Westlink and Lee's current clients need to be informed along with the prospective clients, of the change in the fund's mandate since they might have objections concerning the Fund's new allocations. Hence Standard V(B) Communications with Clients and Prospective Clients is most likely violated. Significant risks and limitations of the new investments should also be disclosed along with their impact on the fund as a whole.

22. B is correct. A is incorrect because Shekar was trying to artificially boost the price of the GYI's stock in order to sell her holdings. C is incorrect because there is no basis for her statements in the social media sites.

23. A is correct. Nader did not violate any Standard. There are always rumors in the market, before an official release by the company. Unless Nader knew that Sandler was in a business relationship with the merger companies, there was no reason to suspect that he was receiving nonpublic material information.

24. A is correct. Agnimukha has violated the Standard VII(A) Conduct as Participants in the CFA Institute Programs by sharing exam content, undermining the validity and integrity of the exam.

25. C is correct. The Standard relating to Independence & Objectivity has not been violated because Devgan has not received any gifts, benefits or consideration to compromise his independence and objectivity

26. A is correct. Standard V(B) Communications with Clients and Prospective Clients has been violated. Seriozha has not run the downside risks and has not explained the limitations of his model with respect to a change in rates contrary to the one he has reported. Members and Candidates must adequately disclose the market-related risks and limitations contained in their investment products and recommendations especially in their investment process.

27. A is correct. Khadri is in violation of Standard VI(A) Conflicts of Interest by failing to disclose to her clients that she is receiving additional compensation for promoting and selling Zoratri's shares. Khadri has also not informed her employer of the additional benefits received for recommending Zoratri's stock. Therefore her employer cannot evaluate her loyalty and objectivity. She also failed to disclose the additional compensation arrangement.

28. B is correct. No violation of Standard VI(B) Priority of Transactions is committed by Emory.

29. B is correct. Tivari has violated Standard III(C) Suitability by not identifying the risks and objectives of Ahisma and selecting an aggressive investment for both clients which is only suitable for Adya, since the two clients have different financial objectives and circumstances.

30. C is correct. Czcibor has not violated VI(C) Referral Fees because she obtained permission from her employers, the school, and the clients.

31. A is correct. If the information is not publicly disseminated by the company and Dobrogost uses it, then it becomes material nonpublic information, hence a violation of Standard II(A). A small group of stakeholders does not qualify as the public. He cannot use the information.

32. C is correct. No violation has occurred because she has received approval from her employer. Standard VI(B) Priority of Transactions does not limit transactions of employees which are

different from the current recommendations as long as they do not disadvantage the current clients.

33. B is correct. It is not specified if Li determined the suitability of accounts at Dragon to which she allocated shares of East Asian equities. She did not violated the Standard relating to Priority of Transactions as she purchase the shares before joining Dragon and has no fiduciary duty.

34. B is correct. Kazuya violates Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program, by using an improper designation on her business cards. Farnsworth reference is proper according to Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program.

35. C is correct. Kayla Donovan has not violated any Standard. Donovan has not caused the price of Swift to move up she has only given her opinion based on research. Further, she informed MacBrady's clients prior to her internet broadcast and has approval from her employer to run her blog.

36. A is correct. Hernandez is violating her duty of loyalty to her trust accounts by using Drez, because he gives her favorable terms for her personal account.

37. B is correct. Blake has violated Standard IV(B) Additional Compensation Arrangements by failing to disclose to his employer benefits received in exchange for his services on the board.

38. C is correct. Research CFA has violated Standard VII(B) Reference to CFA Institute, the CFA Designation, and the CFA Program by using CFA designation inappropriately. Marlow violated Standard V(A) Diligence and reasonable basis.

39. A is correct. Petrowski has violated Standard I(C). She should get the complete study from its original author Ace Research review it and acknowledge it in her report instead of simply plagiarizing the report.

40. A is correct. David has violated Standard IV(C) by failing to supervise the actions of those accountable to her. She did not set up procedures to prevent the dissemination of or trading on the information.

41. C is correct. Ali has clearly misrepresented some important information. By not being honest, he is also violating the standard with regards to misconduct.

42. A is correct. By responding to the client's RFP, the group of employees is competing directly with the employer, hence Standard IV(A) Loyalty is violated.

43. B is correct. Yes Standard V(B) Communication with Client and Prospective Clients has been violated, because Swanson's assessment is an opinion not a fact. He did not distinguish between opinion and fact.

44. A is correct. Zahoor has violated Standard VI(B) Priority of Transactions by taking advantage of her knowledge of the stock and buying it for herself rather than her client.

45. A is correct. Connors has violated Standard III(B) Fair Dealing by failing to deal fairly with all her clients in taking these investment actions.

46. B is correct. Cox was given the internal reports by the trustees; because the information was confidential Cox should have refused to divulge it to Cooper. Therefore by handing the internal reports to him Cox violates Standard III(E) Preservation of Confidentiality.

47. B is correct. Simone must disclose her husband's ownership of the stock to avoid violation of Standard VI(A) Disclosure of Conflicts.

48. C is correct. Yes Miller violates Standard IV (C) Responsibilities of Supervisors, by not investigating the purchase of the stock and her failure to supervise the trader's activities.

49. A is correct. Refer to Standard III(A) Loyalty, Prudence and Care.

50. B is correct. Refer to Standard VII(A) Responsibilities as a CFA institute member or CFA candidate.

51. A is correct. Refer to Standard VI(B) Priority of Transactions.

52. C is correct. Refer to Standard I(C) Misrepresentation.

53. A is correct. Refer to Standard V(A) Diligence and Reasonable Basis.

54. B is correct. Refer to Standard IV(A) Duties to Employers.

55. A is correct. Refer to Standard IV(B) Additional Compensation Arrangements.

56. A is correct. Refer to Standard III(D) Performance Presentation.

57. A is correct. Refer to Standard I(B) Independence and Objectivity.

58. A is correct. Refer to Standard I(D) Misconduct.

59. A is correct. Refer to Standard VI(C) Referral Fees.

60. B is correct. Refer to Standard IV(A) Loyalty.

61. A is correct. Refer to Standards I(A) Knowledge of the Law, I(C) Misrepresentation and III (D) Performance Presentation.

62. C is correct. The Standards related to III(A) Loyalty, Prudence, and Care and III(C) Suitability are violated. The IPS mentions low risk securities, and describes the asset classes. Therefore investment in the pharma stock may not be suitable for this portfolio.

63. B is correct. Clay violated Standard IV(A) because he misappropriated her firm's property without permission

64. C is correct. Sharon disclosed his travel and accommodation arrangements to his employer and had only accepted them after being given permission by his firm. His actions on return do not cause conflicts of interest between his company and ABC, because he makes a full disclosure of his dinner with the CFO to his employer.

65. A is correct. There is improper reference to the CFA Designation that the charter holders achieve better performance results. Refer to Standard VII(B).

66. A is correct. Haley did not violate Standard VII(A) Responsibilities as a CFA Institute Member or CFA Candidate.

67. A is correct. Signa has violated Standard VII(B) Reference to the CFA Designation by using it inappropriately as the company's name. The designation is only meant for individuals and must not be used as a firm's name.

68. C is correct. According to Standard IV(C) Responsibilities of Supervisors, the supervisor and the compliance officer have the responsibility to investigate Ahmed's concerns. Also see Standard I(D) Misconduct.

69. A is correct. Li has violated Standard I(C) Misrepresentation by presenting out-of-date information to clients.

70. C is correct. Lou violated Standard V(A) Diligence and Reasonable Basis by not conducting sufficient review of potential firms.

71. A is correct. According to Standard III(D) Performance Presentation Haq needs to correct the calculation and length of time specifying the performance of her trust fund.

72. A is correct. Refer to Standard II(B) Market Manipulation. Weinberg created an appearance of greater liquidity of stock through its trading strategy and was able to manipulate the market.

73. B is correct. Bates is violating Standard III(A) Loyalty, Prudence and Care. He should have weighed the benefits of the trip against the commission charged by Sia. He should have also determined whether best execution and prices could be received from Sia.

74. C is correct. Burnette has violated Standard IV(C) Responsibilities of Supervisors by neglecting to review thoroughly Desai's report and her recommendations. It is Burnette's responsibility to set up appropriate procedures; these are documented, communicated and followed by the personnel working for her. She has also violated Standard of Diligence and Reasonable basis.

75. A is correct. Refer to Standard V(C) Record Retention. Jaffery must carefully document and maintain copies of all information that goes in his reports in order to avoid violation of Standard V(C).

76. C is correct. Bentley should determine whether the investment is suitable to the client's financial situation. She should make an inquiry into the risk and return objectives of the client before making any recommendations. Refer to Standard III(C) Suitability.

77. A is correct. Brown's actions are in line with Standard I(A) Knowledge of the Law

78. C is correct. There is no evidence of discrimination among clients. However, by recommending the stock without due diligence, the analyst has violated Standard V(A) Diligence and Reasonable Basis, and Standard III (C) Suitability.

79. A is correct. If it is illegal to hold stocks of tobacco companies, Bart should have taken steps to stay informed of the applicable laws.

80. B is correct. The recommended course of action would be to put BU Airlines on a restricted list and disseminate only factual data.

81. C is correct. Refer Standard I(B) Independence and Objectivity and VI(A) Disclosure of Conflicts.

82. A is correct. Refer Standard I(C) Misrepresentation.

83. C is correct. It is recommended that firms check reference of potential employees.

84. B is correct. C is incorrect because when public dissemination is not possible, member must communicate only to the designated supervisory or compliance personnel and not to their teams.

85. B is correct. Raul must not act on the information passed by Tara and must encourage her and her firm to achieve public dissemination.

86. A is correct. Standard III(D) Performance Presentation is not violated as Alex sends a quarterly itemized statement of the funds and securities in his custody, and the transactions that occurred during this period. Standard V(B) Communication with Clients and Prospective Clients is violated because Alex should have discussed the change with the client before moving to small cap stocks. Standard III(A) Loyalty, Prudence, and Care is violated because small cap stocks might not correspond to client's risk profile.

87. B is correct. Anita's circumstance have changed and the down payment takes precedence. She cannot invest any surplus in risky investments now. Since the stock was not suitable, Riya did not recommend the fund. So, she did not violate any standard.

88. A is correct. A large-dividend paying company is usually not growth-focused and it qualifies as a large-cap stock. By choosing this stock for the fund, Andrade has violated Standard III (C) Suitability as it does not fit within the investment mandate.

89. B is correct. Including terminated accounts with a disclaimer is not in accordance with GIPS, but it complies with Standard III(D).

90. A is correct. The assets managed by a firm is presented to clients, and is not confidential. Since no names or confidential details of the clients were disclosed, Standard III(E) is not violated.

91. B is correct. Since it does not interfere with his responsibilities at work, there is no violation.

92. A is correct. Since Fabnish is a client covered as part of their research analysis, there is a conflict of interest. She was paid for her engagement which she should have disclosed to her employer.

93. B is correct. By not educating Ackermann of the compliance procedures for social media, and not supervising what was being posted online, Wohlers has violated Standard IV(C) Responsibilities of Supervisors. Ackermann violated Standard III(B) Fair Dealing.

94. A is correct. He is in violation of Standard V(A) Diligence and Reasonable basis because he did not make reasonable efforts to analyze all aspects such as stock selection process, fees, investment philosophy, assets under management, or experience before selecting an adviser. Belkin is also in violation of Standard III(C) Suitability by not analyzing if the chosen manager's services are appropriate for the firm's clients and if the fee structure is low relative to the services offered.

95. B is correct. The documents related to the screening tool and the tool are a property of Reliable Investments and not that of Kaushal's because they were developed using the resources of the company while employed there.

96. C is correct. Disclosure is fine but the best course of action to avoid any conflict of interest would be to ask his employer to assign the stock to another analyst.